

In the Matter of:

O R D E R

This action is brought pursuant to Commission Regulation 807 KAR 5:046, Section 4. Complainant, Danville Friends Retirement Housing, Inc. ("Danville Friends"), alleges that Kentucky Utilities Company ("KU") wrongfully refuses to provide electric service through a master meter to a multi-unit building which it proposes to construct. The complaint presents the following issue: Are the costs of purchasing and installing separate meters in the proposed building greater than the long-run benefits of individual metering to the consumers of electricity in that building, therefore qualifying the proposed building for a deviation from Commission Regulation 807 KAR 5:046, Section 2? The Commission finds that Complainant has failed to show that the cost of individual metering exceeds its long-run benefits to consumers and, therefore, must deny the complaint.

Danville Friends, a non-profit Kentucky corporation, proposes to construct a three story, 84 unit, apartment-type structure in Danville, Kentucky.¹ The building is intended to serve as residential housing for elderly persons. It will contain a dining/meeting room, kitchen facilities, a laundry, and administrative and professional offices. Each residential unit contains an equipped kitchen and individual heating and air conditioning system. The building will be totally electric. Danville Friends wishes to have electric service provided to the building through a single master meter. If master metering is allowed, Danville Friends intends to recover the cost of electric service through the monthly rental charge to its tenants.

After KU refused its requests for master metered service to the proposed building, Danville Friends on August 30, 1989 filed a complaint against KU pursuant to Commission Regulation 807 KAR 5:046. It requests Commission authorization for master metered service to the proposed building. KU answered the complaint on October 17, 1989. Contending that Danville Friends' complaint constitutes a request for a deviation from Commission Regulation 807 KAR 5:046 and stating in its answer that it stood willing to have this matter decided on Complainant's presentation of its

¹ Whether this remains Danville Friends' intention is not clear. In its complaint, Danville Friends identified the proposed building as a three story, 84 unit structure. In its response to the Commission's Order of January 31, 1990, Danville Friends state that, if master metered service is permitted, a two story, 72 unit structure will be constructed instead.

case, KU requested to be excused from these proceedings. The Commission granted KU's request, but required it to provide any information pertinent to this matter. Danville Friends has waived its right to a hearing in this matter. Accordingly, the record of this case consists solely of the parties' pleadings and their responses to Commission information requests.

Federal and Commission policy disfavor the master metering of electric service to multi-unit buildings. The Public Utility Regulatory Policies Act of 1978 (PURPA), 16 U.S.C. §§2601-2645, requires that all states, inter alia, prohibit or restrict the use of master metering in new buildings. Following the lead of the federal government, the Commission promulgated Commission Regulation 807 KAR 5:046,² which provides in pertinent part:

An individual electric meter to record the retail sales of electricity shall be installed for each newly constructed dwelling unit in a non-transient multi-dwelling unit residential building, a mobile home park, or a commercial building for which the building permit application is made after May 31, 1981.

807 KAR 5:046, Section 2. Commission regulations still permit master metering of electricity, but only in very limited instances.

This aversion to master metering is due to its interference with and distortion of price signals. With master metering, the tenant - the end-user of electricity - receives no direct price

² See Adm. Case No. 229, Hearing on Master Metering Pursuant to Section 113(b)(1) of the Public Utilities Regulatory Policies Act of 1978.

signals. Consequently, he has little incentive to minimize excessive electricity usage through such activities as turning off lights, the prudent use of hot water, and thermostat set backs. Where utility costs are included in rent, furthermore, a tenant receives no adverse price signal when he wastes electricity, nor does he receive a positive price signal when he conserves electricity. Since utility costs are hidden, a tenant is likely to see no relationship between his own cost of living and his incremental electricity use. Master metering ultimately becomes an obstacle to the economic and efficient use of electricity by tenants.

The Commission has carved limited exceptions to its general prohibition against master metering. Certain multi-unit buildings are expressly exempted from this prohibition. Others, though not expressly excepted from the prohibition, may qualify for master metered service if it is shown that "the costs of purchasing and installing separate meters in the building are greater than the long-run benefits of individual metering to the consumers of electricity at the building." 807 KAR 5:046, Section 4.

In its complaint, Danville Friends cites the latter exception as grounds for the provision of master metered electric service to its proposed building. It contends that the installation of separate meters in its building will cost approximately \$72,000.³

³ Letter from T. K. Adkinson to Merle Clark (February 23, 1990) (discussing cost of master metering proposed building).

It further contends that master metering will result in its tenants receiving several intangible benefits. Tenants would avoid deposit requirements, separate monthly payments for electric service and problems associated with termination of service.⁴ Finally, Danville Friends states that master metered service is necessary if it is to install an energy load management system in the building which will result in a significant reduction in electric power costs and a decrease in the use of electric power.

The Commission finds Complainant's arguments to be flawed in several respects. Although Commission Regulation 807 KAR 5:046, Section 4, requires it to show that the long-run benefits of individual metering exceed the costs of such metering, Danville Friends has produced no evidence to quantify the long-run benefits of individual metering at its proposed building. It has, in fact, performed no study to determine the long-run benefits of individual metering to its tenants.⁵ Furthermore, the intangible benefits of master metering, such as avoidance of deposit requirements, can also be obtained with individual metering. KU has advised the Commission that Danville Friends can assume responsibility for its tenants in such matters as billing and

⁴ Danville Friends' Response to the Commission's Order of December 8, 1989, at 1.

⁵ Danville Friends' Response to the Commission's Order of January 31, 1990 Order, Item 11.

deposit requirements even if each tenant is served by an individual meter.⁶

Finally, the Commission is unable to discern any significant benefits from the installation of an energy load management system in the proposed building. The Complainant's own projections show that electricity usage will be the same with or without the load management system and master metering. No significant savings in electric power costs will result. Complainant states that the proposed building will be served on KU's GS Rate if master metered service is approved. As this rate has no demand component, the load management system, whose principal function is to reduce and even out a user's demand and thus reduce any demand charges, would not impact the amount billed. Assuming the proposed building was served on KU's LP rate, which does contain a demand component, a slight savings in annual electricity costs would result, but not sufficient to justify the installation of the system.⁷

As previously noted, the Commission does not favor the master metering of electric service. Those seeking such service must

⁶ KU's Response to the Commission's Order of January 31, 1990, Item 4.

⁷ Based on Danville Friends' projections and applying the GS Rate, its annual cost of electricity would be \$40,127.92. Applying the LP rate, its annual cost would be \$38,117.61 or \$2,010.31 less. See KU's response to the Commission's Order of January 31, 1990, Item 7.

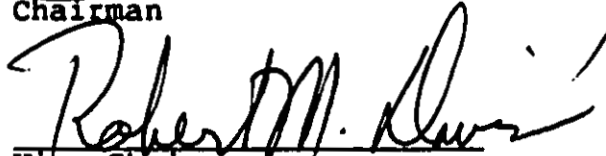
demonstrate that the cost of purchasing and installing separate meters will exceed the long-run benefits of individual metering. The Commission finds that the Complainant has not met this showing and therefore the complaint should be denied.

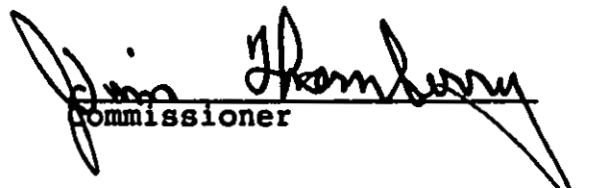
IT IS THEREFORE ORDERED that Danville Friends' complaint is denied.

Done at Frankfort, Kentucky, this 16th day of April, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director